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FEDERAL MANAGERS ASSOCIATION

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STATEMENT OF
MICHAEL E. MINAHAN, PRESIDENT
FEDERAL MANAGERS ASSOCIATION
before the
POST OFFICE and CIVIL SERVICE COMMITTEE
HOUSE of REPRESENTATIVES
on
THE DESIGN of a NEW RETIREMENT PROGRAM for
FEDERAL EMPLOYEES COVERED by SOCIAL SECURITY
23 April 1985

Mr. Chairman, Members of the Committee, I am Michael E. Minahan, the National President of the Federal Managers Association. I am an active, full-time Federal careerist at the Army's Watervliet Arsenal, in Watervliet New York.

The Federal Managers Association is the oldest and largest managers organization in the Federal Government, representing all levels of supervisors and managers, both white- and blue-collar managers from all the principal departments and agencies.

NATIONAL CONVENTION REACTIONS

Recently, FMA held its 47th National Convention here in Washington. It was the largest Convention in the seventy-two year history of the Association with delegates from over 100 chapters in attendance.

The theme of our Convention this year was, "Revitalizing Federal Management" with emphasis placed on enhancing the productivity and efficiency of the Federal Government's managerial workforce. However, Mr. Chairman, there was a theme more overpowering and far more dangerous with these Federal careerists as a result of the continuing cuts to Federal employee benefits.

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They came to town knowing about this Administration's proposals to cut their pay, to erode their retirement, and to be replaced by contractor personnel. As a result, the delegates took strong and unanimous positions against any lessening of their current retirement benefits. These included:

1. Opposition to changing the present age requirements for retiring.
2. Opposition to going from the current High 3 years annuity formula to High 5 years.
3. Opposition to changing the COLA, either as to freezes or the use of "means test" for the higher income personnel or a reduced cost-of-living formula.
4. Opposition to eliminating the sick-leave credit.
5. Supporting legislation to improve the accountability of the Civil Service Retirement Trust Fund by requiring an independent, professional committee to manage this Trust Fund.

While these positions relate to the current CSRS, they also indicate the desirability of certain features of a supplemental plan. Indeed, since these two systems will operate simultaneously, it is critical that their values be equal.

Mr. Chairman, the ironic twist for the Federal employees is that the fact that there are many different groups who are proclaiming the Civil Service Retirement System is too generous, that it is fiscally wrecking our government when actually the opposite is true.

For the Committee's record, the Members of the Federal Managers Association oppose any changes in the Civil Service Retirement Program. To diminish benefits earned by vested employees over many years of service is not an appropriate mechanism to reduce the budget deficit.

As Members of Congress begin the important and time-consuming job of

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developing a retirement program for new Federal employees, we, both active and retired Federal personnel, are remembering well the able, strong statements by you, Speaker O'Neill and Chairman Rostenkowski of Ways and Means, in February 1983 to your colleagues. May I quote briefly from the letter:

"We believe that new Federal employees who become covered under social security should be provided retirement benefits comparable to those under the Civil Service Retirement System.

"We oppose the Administration proposals that would reduce civil service retirement benefits and increase employee contributions to the Civil Service Retirement Fund.

"We oppose the Administration proposal to treat cost-of-living adjustments for Federal retirees differently from those of social security recipients.

"We will oppose any proposal which would threaten or adversely effect the financial integrity of the Civil Service Retirement Fund, or the ability of that fund to continue to pay benefits promised to participants in the Civil Service Retirement System."

CRITERIA ESSENTIAL IN DEVELOPING A NEW PROGRAM

Mr. Chairman and Committee Members, we fully recognize the necessity to develop this year a retirement program for our new Federal employees, those who have been hired since 1 January 1984. With this in mind, we have established several broad criteria that we in FMA consider quite essential in the development of the new program:

First, do not alter the current Civil Service Retirement System. If changes need be made for any reason, first wait to see the impact of the new program.

Second, as the new retirement program is developed, assure that the fiscal integrity of the current CSRS is maintained for all those currently vested in

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the program.

Third, the new program should be sufficiently compatible with the current retirement system to produce a continuing cohesive Civil Service workforce and not a competitive situation.

When I appeared before this Committee's hearing on the supplemental retirement plan last year, I endorsed the two principles you had framed at the start:

1. The proposed system must not be a threat to the integrity of the current Civil Service Retirement System; and,
2. The new plan must insure compatibility with the existing system.

We renew our endorsement of these principles.

Designing a retirement system is a complex assignment. It is made even more complex here because there will be two different plans in one workforce. Careful consideration must be given to setting up clear objectives as to what the system is intended to do. Do we wish to attract and retain a competent workforce? Do we want to emphasize mobility? Are we concerned only with fixed costs? Certainly the plan we design must be fair and equitable. The plan should serve as a model of pension policy. What we do not wish to do is make feeble comparisons or have a plan that is the least common denominator among other employers. FMA thanks the committee for moving forward to find the best possible pension system for new employees.

<u>BASIC TENENTS IN THE DESIGN OF THE NEW PLAN</u>

There are some basic tenets we believe should be in the design of the plan:

First, the basic pension must be a defined benefit, not a defined contribution. We cannot ask our workers to rely on market forces at the time when they are most vulnerable to those forces.

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Second, a three-tiered plan provides the best method for moving toward equal benefits. In a manager's case, he or she has already been penalized in salary growth in the Federal government. To penalize this person further by offering him or her a lower percentage of replacement income at retirement would cause heightened frustrations.

Third, what we should seek is to provide the workforce with an adequate, stable income to maintain each person's standard of living. A retirement plan is a form of deferred compensation. It is not a social welfare program. It aids in attracting and retaining a competent workforce.

Fourth, the current system offers some features that have proved to be important and valuable to the workforce. These features, such as retirement at 55 with 30 years service and unreduced benefits, calculating the benefit on the high three years of salary, and full cost-of-living adjustments, have been seen as <u>steps forward</u> in the design of retirement plans. Let's not move backwards by eliminating these features in the new plan. We have responded to your request, Mr. Chairman, for our views on the new Federal retirement program as it relates to: Cost, Social Security "tilt", Employee Contributions, Funding and Financing, and Vesting.

COST

It is clear that, because of the continuing concern about Federal expenditures, the new plan's cost will have to be comparable to the cost of the current plan. From the start, the introduction of Social Security into the compensation of Federal employment means that some benefit dollars currently spent on retirement benefits will flow to benefit categories not paid under the current system. To reduce the retirement benefit even more by reducing the overall cost of the system would be unfair. We must keep in mind that one goal of the new plan will be to make it so similar that of two people working

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side by side, one in the current system and one in the new system, one will not have to feel cheated in the benefits he or she will receive.

It is also important to remember that total compensation in the Federal government is as good as it is because of the retirement system. Managers who have had to live with little or no pay increases have stayed with the government because of the retirement system.

SOCIAL SECURITY "TILT"

The tilt inherent in Social Security, whereby lower-income employees have a larger percentage of their income replaced by Social Security than do higher-income employees, is an important item for FMA. While we certainly agree that such a distribution is a noble social goal, most of our members are at the higher end of the salary scale and an equitable solution must be found to offer them a reasonable replacement income.

In considering the income distribution issue, the two types of plans often mentioned are offset plans and add-on plans. Our membership would not favor an add-on plan because add-ons follow the tilt of Social Security. Whereas in our current system, workers at all levels of income receive the same percentage of income at retirement, with an add-on our members would be receiving a smaller percentage of their income than lower-income workers.

What FMA would really like is a 100% offset plan which would eliminate the tilt. Unfortunately, there are major problems with such a plan, one of which is that it would be illegal in the private sector. Another is that it would cost more than the current system. After much soul-searching, we are ready to compromise on an offset plan of at least 50%. This will relieve some of the tilt in Social Security and enable us to stay within the cost parameters that we have outlined above.

A capital accumulation plan (CAP) would also help to provide a better

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retirement benefit for any worker who wishes to contribute. It would provide another way for our managers to supplement the lower Social Security benefit they will receive at retirement. Further, a CAP would offer improved portability and investment opportunity.

EMPLOYEE CONTRIBUTIONS

As the Committee has heard, most retirement plans do not require a contribution from the employee. We believe that the cost of the defined benefit part of the new plan should be borne by the government.

We would hope that the new plan will contain a capital accumulation plan. We believe that a CAP offering a 50% government match of employee contributions up to six percent of pay would be workable and beneficial to our members. With such a plan, then, employees may be paying out more than in the current system (5.7% in 1985 to Social Security plus whatever amount the employee puts in the CAP). However, the money put into the CAP would vest immediately and be tax deferred.

FUNDING AND FINANCING

CSRS financing is often compared to private sector pension plan funding. Much is made of the "unfunded liability" of the CSRS. The Committee must realize by now that the only way the unfunded liability becomes a problem is if the government goes out of business. That being unlikely, we recognize that the new system will be similar to the current one. Some sort of pre-financing plan should be implemented so that the Fund contains monies adequate to provide the benefits to be paid in any given year without annual appropriations.

As the Committee knows, regardless of whether the money comes from the employing agencies or out of the Treasury in general, it's still basically an IOU and the impact on the budget and on taxpayers is the same. The important

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thing is to make sure that the funds are there to pay the benefits.

VESTING

The length of the vesting period depends on the system's objectives. If we are hoping to attract and retain a competent workforce, we can choose a long vesting period. If we wish to encourage mobility, we would shift benefits to accommodate early vesting. We believe that the current vesting period of 5 years would strike a good balance between long and short vesting periods, offering some of the benefits of both. With elements in the new plan such as employer-only contributions to the pension, a Social Security base, and a CAP that would vest immediately, portability is enhanced and no employee money would be tied to the job.

UNIQUE EMPLOYMENT CATEGORIES

Although this will be covered at a later hearing, FMA wishes to assert that groups such as air traffic controllers (and many of our members are controllers) have worked hard to achieve the benefits accorded them. It is the special nature of their work that necessitates early retirement. There can be no valid reason to change the benefits in the supplemental system.

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